

By e-mail to: energyretailmarketsreview@beis.gov.uk

16 September 2019

Dear BEIS and Ofgem,

ELEXON's response to your consultation on Flexible Retail Markets.

ELEXON is the Code Manager for the Balancing and Settlement Code (BSC). We are responsible for managing and delivering the end-to-end services set out in the BSC and accompanying systems that support the BSC. This includes responsibility for the delivery of balancing and imbalance settlement and the provision of assurance services to the BSC Panel and BSC Parties. We manage not just the assessment, but also the development, implementation and operation of changes to our central systems and processes. In addition, through our subsidiary, EMR Settlements Ltd, we are the Electricity Market Reform (EMR) settlement services provider, acting as settlement agent to the Low Carbon Contracts Company (LCCC), for the Contract for Difference (CfD) and Capacity Market (CM). EMR services are provided to the LCCC through a contract and on a non-for-profit basis.

We welcome the opportunity to comment on your proposals. We strongly support innovation to benefit the energy industry and consumers in the energy markets, and believe that the markets should be designed in a way that is easy to understand while continuing to ensure the effective operation of the whole electricity system. Fairness to customers should underpin market design, as should adherence to government policy goals including decarbonisation. We will continue to support Ofgem and government on the implementation of existing and future energy policy.

Our detailed views in relation to the consultation are explained below. We have only answered those questions where we believed we can add particular value. For the avoidance of doubt these views are those of ELEXON Ltd alone, and do not seek to represent those of the BSC Panel or Parties to the BSC.

If you would like to discuss our response in detail, please contact Peter Frampton, peter.frampton@elexon.co.uk.

Yours sincerely,

Angela Love
Director of Strategy and Communications

FLEXIBLE RETAIL MARKET CONSULTATION: ELEXON'S RESPONSE

1. Do you agree with our vision for the future of the energy retail market, the outcomes we are seeking to achieve and our characterisation of the key challenges we need to overcome?

We believe that innovation can bring a greater choice and ultimately benefit to consumers, and are committed to facilitating innovation in the energy market through our role managing the Balancing and Settlement Code (BSC). We note below some conversations with customers who believe the retail market could be better adapted to their needs, and we welcome that you have highlighted existing industry initiatives to address retail market barriers, including BSC Modification P379 'Multiple Suppliers'.

2. Are there examples of new products, services and business models that would benefit current and future consumers, but are blocked by the current regulatory framework?

Whilst undertaking development work on the proposal to utilise settlement processes to facilitate multiple electricity suppliers by meter splitting, we have spoken to numerous customers who wish to engage in innovative supply arrangements, but cannot do so. This is not because of barriers in the settlement arrangements, which do facilitate multiple supply relationships, but in whole system complexities. For example interactions between licence conditions, including Guaranteed Standards of Service; the current Smart framework and smart meter capabilities; and the complex contractual relationships required to deliver electricity to customers. Use cases include:

- Purchasing an electrically powered asset with bundled power provided by the asset vendor.
- Accessing the competitive supply market when located on a premises within a landlord's estate (via a private wire network).
- Providing employees with electric company vehicles that they can charge at their homes (or even a customer premises) with the electricity charged to the business rather than to the employee (or customer).
- Obtaining a portion of energy from a community energy scheme/peer to peer trading platform while the rest of the energy comes from a regular supply contract.

It is worth noting that while many of these offerings are beneficial to customers in terms of choice (for example enabling them to choose a local or renewable supply), they will not necessarily result in lower overall cost.

Additionally, there has been some discussion of a new industry role, acting as a customer 'intermediary' to optimise the customer's interaction with a number of other industry actors, driven by customer preferences or even distinct choices. However, this role is not immediately distinguishable from that performed by a supplier in the current market, and therefore it is not clear if there are barriers to current suppliers providing a more interactive service to customers.

4. Would it be beneficial to allow suppliers to specialise and provide products and services to targeted groups of customers? If so, how can this be delivered while balancing the need for universal service?

The current regulatory framework underpinning the retail experience for customers is based on the 'Supplier Hub' model, where a (typically licenced) supplier provides a bundle of services to a customer. While a customer can in theory choose specific services from other providers (for example metering services, data collection and processing services), in practice this is only viable for large consumers across multiple sites.

While there is potential for entities to specialise and provide specific products and services to targeted groups of customers, this would typically need to be independently of, or in partnership with, those customer's suppliers. This could be addressed in part by 'unbundling' the services that a supplier has to provide to their customers, and/or introducing new roles through the industry via updates to licences and industry codes, as per the modular regulation approach described in the consultation.

This approach would need to carefully consider and define 'core services' and determine who is responsible for the continued provision of these core services, and which services are 'add-ons' which need to be interoperable with core service providers. Any reform should also consider whether it would be beneficial to consumers to retain a traditional retail model alongside a modular approach, for example by designating a 'standard package' of modules which mimics today's Supplier Hub.

5. Are incremental changes to regulation sufficient to support the energy transition and protect consumers? Or does this require a more fundamental reform, such as moving to modular regulation?

Incremental changes are useful to continually review and update regulation in light of new requirements (for example European harmonisation legislation) and technology. The energy regulatory framework is becoming more responsive, for example with the development of regulatory sandboxes to test concepts before making permanent changes to rules and regulations.

Any large-scale changes to regulation should be mindful of existing attempts to update and simplify the energy regulatory environment. In particular, the review of energy codes will be considering updating the framework of industry codes which govern many aspects of the industry and in part shape the retail experience. We have [proposed that codes should be simplified](#) and easier to interact with, for example by consolidating the codes down to three including a single Retail code.

11. Do you agree that now is not the time to make further changes on system and network cost recovery, metering and access to data as part of this retail market review?

Some of the desired changes (for example multiple suppliers per customer) will be more effective if coupled with changes to metering and access to data. Therefore, we believe you should remain open to updating standards and requirements in order to retain momentum towards a more flexible retail market.